

29 June 2017

Events Round-Up

US: Advance trade balance (\$b), May: -65.9 vs. -66.0 exp.

US: Pending home sales (m/m%), May: -0.8 vs. 1.0 exp.

Good Morning

In a week with little top-tier data so far, central bankers remain in the driving seat for markets. They are outlining a more positive tone about the outlook and signalling removal of monetary accommodation, supporting the CAD, EUR and GBP.

Markets are sensing a coordinated effort by central bank heads to give the message that global monetary policy is close to an inflexion point and economies can handle some removal of monetary accommodation.

The CAD has led the charge, after Bank of Canada Governor Poloz reiterated in a CNBC interview that the central bank may contemplate a rate hike. The OIS market now sees a 69% chance of a tightening next month, up from 39% yesterday. These comments have come alongside a fifth consecutive daily increase in oil prices, taking WTI up to USD 44.75, supported by a reported fall in US gasoline stockpiles. USD/CAD is down 1.3% to 1.3030, on track to close at its lowest level since February.

GBP has been well supported as the market interpreted BoE Governor Carney's speech as more hawkish than last week's missive. He said that "Some removal of monetary stimulus is likely to become necessary if the trade-off facing the MPC continues to lessen and the policy decision accordingly becomes more conventional". This puts Carney's view closer to three of his fellow MPC members who recently voted for a vote than previously thought. The market isn't confident that a hike will come as soon as the next meeting in August, but OIS pricing moved to a better than even chance of a hike by November, sent the UK 10-year rate up 6bps to 1.15% and drove GBP 0.9% higher to 1.2930.

There has been some volatility in EUR as some headlines hit the screens, with ECB "sources" said to say that the market had misjudged Draghi speech yesterday which had sent the EUR and German bond yields rocketing higher. Apparently, the "speech at ECB Forum was intended to strike a balance between recognising the currency bloc's economic strength and warning that monetary support is still needed". This followed an earlier CNBC interview in which ECB Vice President Constancio also told CNBC that there was nothing new in Draghi's remarks. EUR plunged from 1.1380 to below

1.13 but has reversed that move as Draghi had a chance to clear up any confusion but stuck to the script. EUR is back to 1.1380, up 0.3% for the day.

The NZD has largely been a bystander amidst all this central bank commentary and has settled around 0.73, up 0.4% for the day as better risk sentiment has prevailed. The low 0.73s is a key area of technical resistance that has been in play over the past couple of weeks.

The AUD remains well supported, with a more positive commodity price backdrop a notable feature. Out of the spotlight, iron ore prices have been climbing higher and have recovered about 17% over the last couple of weeks, helped by a 10% gain over the past two days. This has seen NZD/AUD drop to 0.9560. Also flying beneath the radar has been a drift lower in NZX whole milk dairy futures which have fallen to USD 3000 per tonne, down about USD 200 over the past month or so.

In the bond market, Germany's 10 year rate traded in a wide 0.33-0.41% range, following yesterday's rather large 13bp sell-off, as the markets try to decipher where ECB policy is heading. It closed the day flat at 0.37%. US Treasuries largely followed the gyrations in Germany rates, with the 10-year rate rising as high as 2.26%, before settling down to 2.22%, up about 2bps from the NZ close.

The NZ rates curve was steeper and higher yesterday, following the previous day's offshore move. The 2-year swap rate closed near the top of its 2.15-2.25% trading range at 2.24%, up 3bps, while the 10-year rate was up 8bps to 3.21%. We suspect that upside pressure to yields will linger as investors ponder whether a reversal of the fall in global rates seen through much of this year is in the making.

The economic calendar steps up a gear, with the release of the ANZ business outlook survey today, while the key release tonight will be advance CPI data in the euro area.

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Coming Up

	Period	Cons.	Prev.	NZT
JN Retail sales (m/m%)	May	-1.0	1.4	11:50
NZ ANZ activity outlook (net %)	Jun		38.3	13:00
GE GfK consumer confidence	Jul	10.4	10.4	18:00
EC Economic confidence	Jun	109.5	109.2	21:00
GE CPI EU Harmonised (m/m%)	Jun P	0.0	-0.2	00:00
GE CPI EU Harmonised (y/y%)	Jun P	1.3	1.4	00:00
US GDP (annualised QoQ, third est.)	Q1	1.2	1.2	00:30
US Fed's Bullard speaks on monetary policy in London				05:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day				Last	Net Day		
NZD	0.7302	+0.4	0.7254	0.7309	CHF	0.9594	-0.1	S&P 500	2,441	+0.9	19.9	Oil (Brent)	47.38	+1.5
AUD	0.7637	+0.7	0.7577	0.7642	SEK	8.548	-0.8	Dow	21,455	+0.7	23.2	Oil (WTI)	44.79	+1.2
EUR	1.1379	+0.4	1.1292	1.1391	NOK	8.439	+0.2	Nasdaq	6,225	+1.3	32.7	Gold	1248.0	+0.1
GBP	1.2933	+0.9	1.2794	1.2972	HKD	7.804	+0.0	Stoxx 50	3,536	-0.1	28.2	HRC steel	630.0	+0.0
JPY	112.29	-0.1	111.83	112.42	CNY	6.800	-0.2	FTSE	7,388	-0.6	20.3	CRB	171.0	+0.6
CAD	1.3032	-1.3			SGD	1.382	-0.4	DAX	12,647	-0.2	33.9	Wheat Chic.	473.0	+0.9
NZD/AUD	0.9561	-0.3			IDR	13,342	+0.3	CAC 40	5,253	-0.0	28.5	Sugar	12.55	-0.8
NZD/EUR	0.6417	+0.0			THB	33.97	-0.0	Nikkei	20,130	-0.5	29.3	Cotton	74.41	-0.0
NZD/GBP	0.5646	-0.5			KRW	1,144	+0.6	Shanghai	3,173	-0.6	8.2	Coffee	124.4	-0.7
NZD/JPY	81.99	+0.4			TWD	30.44	+0.4	ASX 200	5,756	+0.7	11.9	WM powder	3000.0	+0.0
NZ TWI	78.53	+0.1			PHP	50.55	+0.6	NZX 50	7,624	-0.0	12.1	Australian Futures		
												3 year bond	98.12	0.00
												10 year bond	97.48	-0.04
Interest Rates														
Rates		Swap Yields			Benchmark 10 Yr Bonds			NZ Government Bonds			NZ Swap Yields			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last	Last		
USD	1.25	1.30	1.57	2.19	USD	2.22	0.02	NZGB 3 04/15/20	2.15	0.04	1 year	2.04	0.01	
AUD	1.50	1.72	1.87	2.77	AUD	2.46	0.10	NZGB 6 05/15/21	2.25	0.06	2 year	2.24	0.03	
NZD	1.75	1.96	2.24	3.21	NZD	2.79	0.07	NZGB 5 1/2 04/15/23	2.51	0.06	5 year	2.74	0.06	
EUR	0.00	0.06	-0.16	0.81	GER	0.37	-0.00	NZGB 2 3/4 04/15/25	2.70	0.06	7 year	2.98	0.07	
GBP	0.25	0.30	0.66	1.26	GBP	1.15	0.06	NZGB 4 1/2 04/15/27	2.79	0.07	10 year	3.21	0.08	
JPY	-0.07	0.00	0.04	0.24	JPY	0.06	0.02	NZGB 3 1/2 04/14/33	3.12	0.08	15 year	3.45	0.08	
CAD	0.50	1.17	1.35	1.94	CAD	1.62	0.05	NZGB 2 3/4 04/15/37	3.34	0.08				

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:59

Source: Bloomberg

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